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New Rule Will Not Affect Teacher Salaries in Upcoming School Year

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WASHINGTON — Moving to clear up confusion about a recent tax law change, the Internal Revenue Service today reassured teachers and other school employees that new deferred-compensation rules will not affect the way their pay is taxed during the upcoming school year.

Recently, the IRS has received inquiries from teachers who had been told that they had to make certain decisions about their pay, this month, or risk severe penalties. At issue is a 2004 law change that applies to people who decide to defer compensation from one year to a future year. In April, the Treasury Department and the IRS issued final rules implementing this law change.

Under the 2004 law, when teachers and other employees are given an annualization election – that is, they are allowed to choose between being paid only during the school year and being paid over a 12-month period – and they choose the 12-month period, they are deferring part of their income from one year to the next. For instance, a teacher who chooses to get paid over a 12-month period, running from August of one year through July of the next year, rather than over the August to May school year, falls under this law.

The IRS clarified that the new rules do not require school districts to offer teachers an annualization election. Thus, school districts that have not been offering teachers this election are not required to start.

School districts that offer annualization elections may have to make some changes in their procedures. The IRS announced that the new deferred-compensation rules will not be applied to annualization elections for school years beginning before Jan. 1, 2008, so school districts and teachers will have time to make any changes that are needed.

More information, including answers to frequently-asked questions is posted on IRS.gov.

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